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Date: 6 MAR 1985

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OPTIONAL FORM 41 (Rev. 7-76)
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☆ GPO : 1983 O - 381-529 (301)

6 March 1985

85-0370/4

MEMORANDUM FOR: See Distribution

VIA: Acting Chief, Liaison Division, OLL

DD/A REGISTRY
FILE: 100-13

STAT

FROM: [redacted]
Liaison Division, OLL

SUBJECT: Retirement: Senator Stevens Supplemental Plan

1. Attached hereto is the updated version of Senator Ted Stevens (R., AL) bill to establish a "Civil Service Pension" for all Federal civilian employees hired on or after 1 January 1984. Also attached is the most recent draft of a "Section-by-Section Analysis" of the bill, and summary of the bill. Please destroy earlier versions of the bill (the last distributed was dated 16 January 1984).

2. The staff does not anticipate further changes. This bill will soon be introduced and hearings will commence in March. There are no changes to earlier reports on Senate plans for supplemental retirement.

STAT

[redacted]

Attachments:
as stated

Distribution:
1 - D/OP w/att
1 - DD/OP w/att
1 - DD/EB&S/OP w/att
1 - DD/PA&E/OP w/att
STAT 1 - OGC [redacted] w/att
1 - DDA w/att
1 - D/OLL w/att
1 - DD/OLL
1 - C/LEG/OLL w/att
1 - D/OF w/att
1 - D/OIS w/att
STAT 1 - [redacted] Subj. w/att
1 - [redacted] Chrono w/o att
1 - OLL Record w/att
1 - OLL Chrono w/o att
STAT OLL:LD:[redacted] (6 March 1985)

6 MARCH 1985

Section-by-Section Analysis

The opening section (section 2) provides for the purpose of the legislation. The purposes delineated include providing a stable and flexible retirement plan which is comparable to good private sector retirement benefits plans, enhancing portability of retirement assets between Federal jobs and jobs outside the Federal government, and ensuring a fully funded and financially sound federal retirement program.

Title I - Civil Service Pension System

Section 101(a) amends title 5, United States Code, by inserting a new chapter 84, entitled "Civil Service Pension System" (CSPS).

Subchapter I of this chapter provides definitions for administration of the CSPS, identifies the participants in the new CSPS, and specifies its relationship to the Social Security Act. Employees of the District of Columbia are specifically excluded. Employees of the current Civil Service System are included if they so choose pursuant to Section 8471.

Subchapter II describes the basic retirement plan, which is a defined benefits plan applicable to all permanent employees covered by the Social Security System on or after January 1, 1984 and any employees subject to the CSRS who elect to join the CSPS.

Section 8411 of such title lists the combinations of age and service which establish entitlement to an immediate annuity.

Subsections (a) and (b) provide for an immediate annuity at age 55 with 30 years of service and age 62 with 10 years of service.

Subsections (c) and (d) provide for an immediate annuity to the special retirement classes (law enforcement officer, firefighter, or air traffic controller) at age 55 with 25 years of service in those respective occupations.

Subsection (e) recognizes the unique situation of military technicians who must maintain military membership as a condition of civil service employment. This currently is covered, for National Guard technicians, in the National Guard Technicians Act of 1968; for reserve technicians, coverage is by administrative agreement with the Office of Personnel Management.

Subsection (f) provides for an immediate annuity to an employee who is separated from the service involuntarily and who has completed 25 years of service or is not less than age 50 with 20 years of service.

Subsection (g) provides that the annuity authorized by this section is computed under sections 8413 through 8415 of this title.

Section 8412 provides for deferred retirement at age 62 to a participant under age 62 who terminates service after completing 10 years of civilian service.

Section 8413 provides the formula for computing the annuity a participant is entitled to receive. The formula is 0.85 percent of the average pay over a period of five consecutive years multiplied by the number of years of service. For the special retirement classes, an annuity supplement equal to the amount of Social Security benefits paid at age 62 will be paid to annuitants under age 62 until they reach age 62. This supplement will be increased annually by the percent increase in the index of national salaries and wages.

Section 8414 provides for a reduction of an immediate annuity by two percent for each year the participant is under age 62 on the date of separation. For employees in the special retirement classes who are involuntarily separated prior to age 55, the two percent reduction applies to each year the participant is under age 55. This is also applicable to military technicians whose loss of military status results in their involuntary separation from their technician position.

Section 8415 lists the methods by which an annuity may be reduced to provide for a survivor annuity.

Subsection (a) provides for an automatic annuity reduction to provide a survivor annuity to the spouse of a married participant unless the participant and his or her spouse jointly waive the spouse's right to a survivor annuity.

Subsection (b) provides for an automatic annuity reduction when the participant has a former spouse who is entitled to a survivor annuity.

Section 8416 provides that OPM shall prescribe methods of payment of annuities and participant election of the method preferred. Included in those methods are:

(1) a monthly annuity only during the life of the annuitant

(2) a monthly annuity for the joint lives of the annuitant and spouse and the life of the one of them who survives the other.

Section 8417 provides that the participant's employing agency shall contribute an amount equal to the normal cost of an annuity under this subchapter for each participant employed by the agency. It also provides for a yearly determination of the Fund's supplemental liability which is to be credited to the Fund by the Secretary of the Treasury or the Post-master General of the United States, as appropriate.

Subchapter III describes the thrift savings plan, which is an optional plan permitting participants and those former participants who are receiving disability benefits to contribute a percentage of their basic pay or disability benefits to a selected investment vehicle and have those contributions matched two for one by the government, up to a maximum of an eight percent government contribution.

Section 8421(a) allows participants to contribute up to 10 percent of their basic pay to the thrift plan. Former participants under age 62, who are receiving disability benefits, may contribute up to 10 percent of the disability benefits payable. An opportunity to change the contribution amount will be provided at least annually.

Section 8421(b) requires the employing agency to contribute an amount equal to twice the contribution of the participant at the same time as the participant's contribution is made. The total amount of the employing agency's contribution cannot exceed eight percent of the participant's annual rate of basic pay or the disabled participant's disability benefits for the fiscal year.

Section 8421(c) provides that appropriations or funds available to the agency for payments of basic pay are to serve as the source of the agency's contribution to the thrift fund.

Section 8421(d) provides that amounts contributed by the employee to the thrift fund are not included in gross income for income tax purposes.

Section 8422 provides a vesting schedule for the thrift plan. A participant immediately vests in his contributions and their earnings. Beginning at two years of service, the participant vests in 25 percent of the employer's contribution. This increases by 25 percent for each additional year of participation up to five years and beyond, when the entire share contributed by the employer, plus interest, is vested. A participant who dies while employed by the government immediately vests in 100 percent of the employer's contribution and the earnings on it.

Subsection 8423(a) permits a participant who separates from government employment when entitled to an immediate annuity to elect one of four methods of receiving money credited to his or her thrift account. These methods are:

(1) An immediate annuity

(2) A deferred annuity

(3) A lump sum withdrawal

(4) Transfer to an individual retirement account or another qualified plan

Subsection 8423(b) permits a participant who separates from government employment before becoming entitled to an immediate annuity to elect one of three methods of receiving money credited to his or her thrift account. These methods are:

(1) An annuity at age 62

(2) A lump sum withdrawal at age 62

(3) Transfer to an individual retirement account or another qualified retirement plan

Subsection 8423(c) permits a participant who elected to defer an annuity payment under subsection 8423(a) to modify the date specified in that election.

Subsection 8423(d) requires participants who transferred from the CSRS to wait five years from their date of participation before they can receive or transfer their accounts if they separate from service during the five year period. This limitation does not apply to transferees who become eligible for an immediate or a deferred annuity before the five year period expires.

Section 8424 describes how annuities available from the thrift plan will be computed and paid. The Thrift Investment Board will prescribe methods of payment which must include a monthly annuity payable only during the life of the annuitant and a monthly annuity payable for the joint lives of the one who survives the other. The amounts will be determined in accordance with generally accepted actuarial principles. Methods for providing annual increases in the annuity payable must also be prescribed. At the end of each fiscal year, a reconciliation of the investment experience for the annuitant's account and the actuarial assumptions used to compute the annuity will be made. Any excess return will be used to purchase an additional annuity payable from the fund.

Section 8425 provides rules for payments and elections by participants entitled to payments or transfers from the thrift plan.

Section 8426 establishes the Thrift Savings Fund and prescribes how monies in the Fund may be used. One such use is loans to participants in cases of hardship.

Section 8427 identifies categories of investments available to the Board for investment of sums in the Fund and provides that Fund participants may elect the type or types of investments into which money in their account will be invested. The section also specifies, for the implementation phase, a minimum percentage of contributions made (1) by the participant and (2) on behalf of the participant which must be invested, during a given period of time, in United States government securities. The initial percentage is 100, reduced over a four year period by 25% each year for the participant's contributions. For the agency's contribution, the reduction goes to a final rate of 12.5% over a 12 year period. All sums initially credited for transfer participants and for participants hired during the temporary adjustment period will be invested in U.S. government securities. All amounts earned on sums invested in interest-bearing securities of the United States government and matured investments will be reinvested in interest-bearing securities of the United States government. The Board is restricted from investing in equity securities of private businesses to the extent that their ownership interest would permit them to direct the management of that private business.

Section 8428 prescribes how the Board is to account for the funds of each participant in the System and requires that the participant be provided an annual statement of his or her account.

Subchapter IV describes the benefits available to survivors of deceased participants and former participants.

Section 8431 provides for payment of death benefits from the basic plan to a participant's survivor if the deceased had at least 18 months of service. The survivor gets the higher of:

(1) 50 percent of the accrued annuity (computed as if the worker had retired the day before death, with any applicable early retirement reductions, but without the reduction for survivor benefits), or

(2) 25 percent of the worker's high-five average salary. This benefit is offset by the family benefits. This offset does not apply if the only benefit payable is a child's insurance benefit.

Section 8432 provides for payment of death benefits from the basic plan to a retiree's survivor unless the surviving spouse waived a survivor annuity. Survivors eligible for social security benefits get 50 percent of the unreduced annuity (except for early retirement reduction). Survivors who are not eligible for social security get the full annuity that was payable to the retiree (after reductions for early retirement and survivor benefits). When they become eligible for social security, they get 50 percent of that amount, taking into account any adjustments made in the annuity since the date of death.

Money required to pay an annuity to a former spouse is deducted from the amounts described above.

Section 8433 provides for survivor benefits from the thrift savings plan using one of three methods. These are:

(1) An annuity payable for life,

(2) Transfer of the money to the spouse's individual retirement account, or

(3) Lump sum payment

Money required to pay an annuity to a former spouse is deducted from a distribution to the surviving spouse or the estate and held in a fund until expended in payment of that annuity, unless terminated. Any remaining money in such fund goes to the surviving spouse or the estate.

Section 8434 provides for survivor benefits from the basic plan and the thrift plan for eligible former spouses. The benefits from the basic plan are the same as for a surviving spouse under sections 8431 or 8432.

-- In all three of the above sections, any prior elections or prior court orders or decrees concerning an annuity for a former spouse must be honored before payment to a surviving spouse or another former spouse can be made.

-- Benefits from the thrift fund are determined actuarially.

Section 8435 provides for a former participant to elect a survivor benefit from the basic plan and the thrift plan for an eligible former spouse.

Subsection (a) permits a participant who has a former spouse to elect an annuity reduction in order to provide a survivor annuity to such former spouse. The election must be made on the date payment of an annuity from the basic plan commences or, if later, within two years after the date on which the marriage of the former spouse to the participant is dissolved. A deposit, computed to reflect the amount by which the annuity would have been reduced if it had been continuously in effect since the date the annuity commenced, plus interest at six percent is required. If the deposit is not made, the retiree's annuity will be offset. An election of an annuity reduction to provide a survivor benefit to a former spouse shall not be effective if it

(1) conflicts with a court order or decree,

(2) exceeds the funds available to pay it, or

(3) is made without the spouse's written consent.

Subsection (b) provides that a retiree whose annuity is being reduced to provide a survivor benefit to a former spouse may elect to provide or increase a survivor annuity for any other former spouse. This election must occur within two years after the former spouse's date of death or remarriage before age 55.

Subsection (c) provides for a former participant to elect to provide or increase a survivor annuity to his spouse if the entitlement of an eligible former spouse is terminated or reduced due to remarriage or death.

Section 8436 provides for termination of a survivor annuity on death of the spouse, or former spouse, dissolution of the marriage, or remarriage of the former spouse before reaching age 55.

Subchapter V describes the disability benefits available to a participant who has at least 18 months of service.

Section 8441 provides definitions for the administration of this benefit.

Section 8442 provides that an eligible participant is entitled to receive benefits under this subchapter while under age 62. At age 62, the annuity is payable under the basic plan provisions of subchapter II based on at least 10 years actual service plus projected service through age 62. Average pay is equal to pay on the date of disability, increased each time after that date by the compounded overall average percentage increase in the rates of the General Schedule pursuant to section 5305.

Section 8443 provides the following methods for computing disability benefits:

(1) If eligible for Social Security or ineligible for Social Security only as a result of insufficient quarters of coverage, 60 percent of the high five salary minus 100 percent of the Social Security benefit.

(2) If ineligible for Social Security, 60 percent of the high five salary for the first year. After the first year, 20 percent of the high five or the accrued benefit based on projected service through age 62, whichever is lower.

Section 8444 requires a claim for disability benefits to be filed within one year after the date the participant separates from employment by the Federal Government. This time limit may be waived by OPM.

Section 8445 requires OPM to direct a medical examination of disability retirement applicants.

Section 8446 requires that an applicant who is determined able to perform the work required in any position offered by the agency must be considered for appointment to such position. The applicant is entitled to appeal such a determination.

Section 8447 provides for termination of disability benefits to an individual who recovers from the disability before reaching age 62. These benefits may be resumed if there is a recurrence of disability. In the case of an individual whose benefits were terminated due to restored earning capacity, benefits are resumed if he is not reemployed within one year, his disability continues, and his income for one year is less than the amount establishing his restored earning capacity.

Section 8448 establishes that an individual is not entitled to receive both disability benefits under this chapter and injury compensation benefits under subchapter I of chapter 81 of this title for the same period of time.

Section 8449 provides for disability benefits for a National Guard technician who is separated from employment as a technician due to a disability which disqualifies him from membership in the National Guard or from holding the military grade required for such employment and who is not placed in another position.

Section 8450 requires agencies to pay disability benefits from their salary appropriations.

Subchapter VI describes general provisions applicable to the administration of the basic plan.

Section 8451 provides that OPM shall pay all benefits payable under the basic plan from the Fund.

Section 8452 provides for an annual adjustment to the basic pension of the consumer price index minus 2 percentage points. The adjustment is made in January and is based on the change from September to September. A pro rata share of the increase is payable to retirees or survivor annuitants for whom this is the first increase.

Section 8453 provides that each annuity and disability benefit is stated as an annual amount, one-twelfth of which is the monthly rate payable.

Section 8454 provides that a participant's annuity under the basic pension begins to accrue on the day after the participant separates from government employment and terminates on the date of death or other terminating event provided by law. It further provides that a survivor annuity begins to accrue on the date of death of the participant or retiree on whom the annuity is based and terminates on the last day of the last month ending before the surviving spouse dies or remarries before age 55.

Section 8455 provides that an individual entitled to receive a basic pension may waive receipt of all or part of the benefits. An individual may also make allotments from the benefit payment.

Section 8456 provides that an application for benefits must be received before the former participant's 115th birthday; for survivor benefits, the application must be received within 30 years after the death or other event which establishes entitlement to the benefit.

Section 8457 requires compliance with the terms of a court order requiring payment of an annuity, in whole or in part, to another person.

Section 8458 provides for termination of an annuity when an annuitant is employed in an appointive or elective position in the Government. Upon termination of the employment, his annuity rights are redetermined. The amount of the annuity resulting from a redetermination is not less than the amount of the terminated annuity plus any increases under section 8452 of this title.

Subchapter VII outlines the transition provisions for individuals covered by the CSRS who choose to participate in the CSPS.

Section 8471 permits CSRS participants to elect to transfer to the CSPS or to begin participation in the CSPS and retain accrued credit for entitlement to benefits under the CSRS for service subject to that system. It also permits the same election to rehires who are required to participate in the CSPS but who have an unrefunded lump-sum credit in the Fund based on prior service under the CSRS.

Section 8472 provides that for transferees from the CSRS to the CSPS, the total amount deposited to the CSRS Fund on their behalf (employee and employer contributions), plus interest on this amount as if it had been credited at an annual rate of seven percent at the end of each year for the amount deposited during that year and had been compounded, will be transferred to the thrift savings fund in the form of U.S. Government securities. All service credited under subchapter III of chapter 83 is creditable service for the basic pension benefit.

Section 8473 provides that CSRS participants who elect to first participate in the CSPS are allowed credit for service under both systems for purposes of determining eligibility to retire in both systems. Pay for such individuals subsequent to beginning participation in the CSPS is taken into account in computing average pay under both systems.

Section 8474 provides that service by a participant during the temporary adjustment period will be recognized by transferring from the Fund to the Thrift Savings Fund an amount which equals his or her contributions plus twice that amount plus interest at 10%.

Section 8475 excludes former CSRS participants who join the CSPS from the offset provisions of the Social Security Act.

Section 8476 authorizes OPM to prescribe regulations to carry out this subchapter.

Subchapter VIII describes the Civil Service Thrift Investment Board, which administers the Thrift Savings Fund.

Section 8491 provides that the Board is established as an independent establishment in the executive branch of the Federal government. The Board will be composed of six members appointed by the President, confirmed by the Senate, and an Executive Director appointed by a majority of the members. Except for the members first appointed under this section, the members and the Executive Director are appointed for seven years.

Section 8492 lists the functions of the Board and the Executive Director.

Section 8493 states the powers of the Board.

Section 8494 states the powers of the Executive Director, including the authority to contract with private business concerns for the investment of sums in the Thrift Savings Fund and the management of such investments.

Section 8495 provides rules of administration for actions of the Board.

Section 8496 identifies fiduciaries and their responsibilities, defines "party in interest," lists prohibited practices by fiduciaries, and describes penalties for committing a prohibited practice.

Title II - Amendments to the Internal Revenue Code of 1954 and the Social Security Act.

Section 201(a) amends section 210(a)(5) of the Social Security Act by adding a new subparagraph concerning service performed by an individual who transfers to or commences participation in the CSPS.

Section 201(b) amends section 3121(b)(5) of the Internal Revenue Code of 1954 by adding a new subparagraph concerning service performed by an individual who transfers to or commences participation in the CSPS.

Title III - Miscellaneous Amendments

Section 301 amends section 5363(a) of title 5, United States Code, to provide pay retention for disabled employees placed as a result of subchapter V of chapter 84 in a lower grade position.

Section 302(a) amends section 8331 of title 5, U..S. code, to exclude District of Columbia government employees first employed after the effective date of this Act.

Section 302(b) amends section 8332 of title 5, United States Code, by adding a new subsection excluding participants in the CSPS from the creditable service provisions of the CSRS. Also excluded are those who transfer from the CSRS.

Section 302(c) amends section 8334(a) of title 5, United States Code, relating to deductions from an employee's pay for both CSRS and Social Security coverage. An employee who was covered by the CSRS on December 31, 1983 and who was subsequently covered by Social Security will continue in the

CSRS at a reduced contribution. The contribution to CSRS will be equal to the excess of the employee's normal CSRS contribution over the full Social Security contribution.

Section 302(d) amends section 8334(d) of title 5, United States Code, to exclude participants under chapter 84 from making a redeposit to the Fund for a refund of retirement deductions covering service for which they may be allowed credit under subchapter III of chapter 83.

Section 302(e) amends section 8339 of title 5, United States Code, to specify that the CSRS benefit will be offset by 100% of the Social Security benefit attributable to federal service.

Section 303 excludes participants in the CSPS from participation in the Foreign Service Retirement and Disability System and the Central Intelligence Agency Retirement and Disability System. It includes officers and employees of the Postal Service for coverage under the provisions of chapters 83 and 84 of title 5.

Section 304 amends title 5, U.S. Code, to incorporate health benefit plan eligibility requirements for former spouses as a result of P.L. 98-615.

Title IV - Authorization and Effective Dates.

Section 401 provides for payment of the fiscal year 1986 expenses of the Civil Service Thrift Investment Board from appropriations.

Section 402 provides that this act takes effect 180 days after enactment, except for subchapter VIII of chapter 84 (relating to the Civil Service Thrift Investment Board), which takes effect on the date of enactment.

6 MARCH 1985

Senator Stevens' Retirement Plan

Participation-

- All permanent federal employees covered by Social Security on or after January 1, 1984 with the exception of employees who were participants in CSRS on December 31, 1983.
- All those who are currently subject to CSRS and who elect to join.

I. BASIC PLAN-

- 0.85% x high 5 years of salary x years of service.
- 2% per year reduction of annuity under age 62.
- Can retire with immediate annuity at age 62 with 10 years of service; age 55 with 30 years of service.
- Involuntary retirement age 50 with 20 years of service, any age and 25 years of service.
- Disability and survivor benefits integrated with Social Security.
- Deferred annuity at age 62 for employees with 10 years service who leave prior to retirement eligibility.
- Retains special retirement classes (Law enforcement, firefighters and air traffic controllers)
  - -- Age 55 with 25 years of service
  - -- Age 62 with 10 years of service
  - -- No reduction under 62
  - -- Retirement Supplement under 62 equal to Social Security benefit available at 62.

Funding

Agency contributes to CSR fund the percentage of pay necessary to meet the projected cost of benefits. Any supplemental liabilities to be amortized from Treasury over 30 year period. Agency also pays cost of annuity for disability retirees under age 62.

Fund for basic plan will be the same as that for CSRS. OPM pays benefits, must provide life annuity and joint and survivor annuity along with any other annuity form OPM desires as long as actuarially equivalent.

Basic pension is adjusted annually in January for the change in CPI from September-September minus two.

Disability

18 months for vesting

If eligible for Social Security, 60% of high 5 minus 100% of Social Security benefit from onset of disability to age 62.

If ineligible for Social Security:

1) Definition tightened resulting in placement of disabled employee in any job in commuting area for which qualified within 2 grades of current position.

2) 1st year - 60% of high 5

3) After 1st year - 20% of high 5 or accrued benefit based on projected service through age 62, whichever is lower.

In both cases, accrued benefit after age 62 based on actual service plus projected service through age 62. Must have 10 years of actual and projected service.

Survivor Annuity

A. Preretirement survivor benefits:

1. Benefits payable immediately if the deceased had at least 18 months service

2. Survivor gets the higher of:

(a) 50 percent of the accrued annuity (computed as if the worker had retired the day before death, with any applicable early retirement reductions, but without the reduction for survivor benefits) plus any social security payable,

(b) 25 percent of the worker's high-five average salary minus any social security family benefits (not applicable if only benefit payable is child's insurance benefit).

B. Postretirement survivor benefits: Annuity to married retiree automatically reduced actuarially as in a 50 percent joint-and-survivor plan to provide a spouse survivor annuity - waived with consent of spouse.

1. Survivors eligible for Social Security benefits get 50 percent of the unreduced annuity (except for early retirement reduction) plus any social security payable.

2. Survivors not eligible for Social Security get the full annuity that was payable to the retiree (after reductions for early retirement and survivor benefits) until age 60, when they

will get 50 percent of the accrued annuity after early retirement reductions plus any social security payable.

C. Survivors benefits to widows and widowers cease if they remarry before age 55 (this reflects the provision in the new Civil Service Retirement Spouse Equity Act of 1984).

D. Child survivor benefits: none from plan, social security only.

E. Former spouse benefits: Any prior elections or court orders concerning an annuity for a former spouse must be honored before payment to a surviving spouse or another former spouse can be made.

II. THRIFT/SAVINGS PLAN

- Participant may contribute to the fund any amount not exceeding 10 percent of basic pay.
- Contributions will be tax deferred.
- Agency shall contribute $2 for every $1 contributed by employee up to 4% of employee basic pay.
  - -- Maximum agency contribution will be 8% of pay.
- Employee elects category of investment(s) for his account, receives annual statement of earnings, annual opportunity to change amount contributed, category of investment(s).
- At retirement may withdraw, rollover in IRA, draw an annuity or defer.
- Upon separation prior to retirement eligibility may rollover in IRA or qualified employer pension or leave till age 62 and withdraw or receive an annuity.

Investments

1st year - all monies invested in federal securities.

2nd year and beyond - each year a 25% increment of employee money to be invested by Board of Trustees in any federal, state, local or private interest bearing securities, equities, real estate, etc. Agency money to be invested in 12.5% increments beginning in year 6. After year 4 all employee money to be invested by board; after year 12, all agency money.

Thrift Investment Board

Off budget agency.

6 trustees.

Appointed by President, confirmed by Senate.

Executive Director appointed by Board, must have substantial experience, training or expertise in the management of financial investments.

All trustees have 7 year appointments except first few to be graduated.

III. Transition provisions

For current employees to join new system - two options (also applicable to rehires covered by the plan who have an unrefunded lump-sum credit from prior service under the CSRS).

1) employee contributions to current system will be matched by government money plus 7% interest (credited annually and compounded) from CSRS and transferred to thrift/savings account of employee. Additionally, credit under current program will be transferred to credit under new basic plan.

2) credit in current program will freeze and employee may accrue new credit in new program. Service in new program will count towards eligibility to retire in old. Salary in new will count towards high 3 in old. However, service in new program will not accrue for old. Service in old program will count towards eligibility to retire in new but will not accrue in new.

Employees hired during interim period will be given credit for service in basic plan plus 1.3% contribution will be matched 2 for 1 with a 10% interest applied and put in employees' thrift/savings accounts.

Employee covered by CSRS prior to January 1, 1984 and covered by Social Security pursuant to Social Security Amendments of 1983 will contribute difference between OASDI contribution and normal CSRS contribution to CSRS fund. Entitled to full CSRS benefit until begins receiving Social Security payment. CSRS benefit recomputed and reduced by the amount of the Social Security benefit attributable to service performed while employee of federal government. Applies to normal benefit, disability and survivor benefits.

6 MARCH 1985

¶ Ø7991Ø.Ø87 S.L.C.

99th CONGRESS
1st Session S. _____

IN THE SENATE OF THE UNITED STATES

Mr. Stevens introduced the following bill; which was read twice and referred to the Committee on ____________________

A BILL

To amend title 5, United States Code, to establish a new retirement and disability plan for Federal employees, postal employees, and Members of Congress, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the ''Civil Service Pension Reform Act of 1985''.

PURPOSES

Sec. 2. The purposes of this Act are--

(1) to provide Federal employees with a retirement benefits plan which is comparable to good private sector retirement benefits plans;

(2) to promote financial stability and flexibility for the future of each Federal employee;

(3) to ensure a fully funded and financially scund

Federal Government retirement benefits plan;

(4) to enhance portability of retirement assets between Federal jobs and jobs outside the Federal Government;

(5) to increase the options of each Federal employee with respect to retirement benefits plans;

(6) to encourage Federal employees to increase personal savings;

(7) to include Federal employees in the investment decisionmaking process with respect to the assets of the retirement system; and

(8) to extend financial protection from disability to additional Federal employees and to increase such protection for eligible Federal employees.

TITLE I--CIVIL SERVICE PENSION SYSTEM

ESTABLISHMENT

Sec. 101. (a) Title 5, United States Code, is amended by inserting after chapter 83 the following new chapter:

''CHAPTER 84--CIVIL SERVICE PENSION SYSTEM

''SUBCHAPTER I--DEFINITIONS; CIVIL SERVICE PENSION SYSTEM

''Sec.
''8401. Definitions.
''8402. Civil Service Pension System; participation.
''8403. Relationship to the Social Security Act.

''SUBCHAPTER II--BASIC PLAN

''8411. Entitlement.
''8412. Deferred retirement.
''8413. Computation of annuity.

85 0370

OLL 85-0363
30 January 1985

MEMORANDUM FOR: See Distribution

VIA: Chief, Liaison Division 3 100-13

STAT

FROM: [redacted]

SUBJECT: Retirement Legislation to be Introduced by Senator Ted Stevens (D., AL)

1. Attached hereto is a draft of the bill for a supplemental retirement plan which Senator Ted Stevens intends to introduce next month. This plan would cover Federal employees hired after 1 January 1984. Also attached is a "section-by-section" analysis of the bill.

2. As earlier reported, Senator Stevens plans to hold several hearings through February, have markup and vote the bill out of Subcommittee/Committee in Spring, and to bring it to the floor for debate and Senate approval next Summer. At that juncture, the Senate-passed measure will likely be stalled in the House.

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Section-by-Section Analysis

The opening section (section 2) provides for the purpose of the legislation. The purposes delineated include providing a stable and flexible retirement plan which is comparable to good private sector retirement benefits plans, enhancing portability of retirement assets between Federal jobs and jobs outside the Federal government, and ensuring a fully funded and financially sound federal retirement program.

Title I - Civil Service Pension System

Section 101(a) amends title 5, United States Code, by inserting a new chapter 84, entitled "Civil Service Pension System" (CSPS).

Subchapter I of this chapter provides definitions for administration of the CSPS, identifies the participants in the new CSPS, and specifies its relationship to the Social Security Act. Employees of the District of Columbia are specifically excluded. Employees of the current Civil Service System are included if they so choose pursuant to Section 8471.

Subchapter II describes the basic retirement plan, which is a defined benefits plan applicable to all permanent employees covered by the Social Security System on or after January 1, 1984 and any employees subject to the CSRS who elect to join the CSPS.

Section 8411 of such title lists the combinations of age and service which establish entitlement to an immediate annuity.

Subsections (a) and (b) provide for an immediate annuity at age 55 with 30 years of service and age 62 with 10 years of service.

Subsections (c) and (d) provide for an immediate annuity to the special retirement classes (law enforcement officer, firefighter, or air traffic controller) at age 55 with 25 years of service in those respective occupations.

Subsection (e) provides for an immediate annuity to an employee who is separated from the service involuntarily and who has completed 25 years of service or is not less than age 50 with 20 years of service.

Subsection (f) provides that the annuity authorized by this section is computed under sections 8413 through 8415 of this title.

Section 8412 provides for deferred retirement at age 62 to a participant under age 62 who terminates service after completing 10 years of civilian service.

Section 8413 provides the formula for computing the annuity a participant is entitled to receive. The formula is 0.85 percent of the average pay over a period of five consecutive years multiplied by the number of years of service. For the special retirement classes, an annuity supplement equal to the amount of Social Security benefits paid at age 62 will be paid to annuitants under age 62 until they reach age 62. This supplement will be increased annually by the percent increase in the index of national salaries and wages.

Section 8414 provides for a reduction of an immediate annuity by two percent for each year the participant is under age 62 on the date of separation. This does not apply to the special retirement classes.

Section 8415 lists the methods by which an annuity may be reduced to provide for a survivor annuity.

Subsection (a) provides for an automatic annuity reduction to provide a survivor annuity to the spouse of a married participant unless the participant and his or her spouse jointly waive the spouse's right to a survivor annuity.

Subsection (b) provides for an automatic annuity reduction when the participant has a former spouse who is entitled to a survivor annuity.

Section 8416 provides that OPM shall prescribe methods of payment of annuities and participant election of the method preferred. Included in those methods are:

(1) a monthly annuity only during the life of the annuitant

(2) a monthly annuity for the joint lives of the annuitant and spouse and the life of the one of them who survives the other.

Section 8417 provides that the participant's employing agency shall contribute an amount equal to the normal cost of an annuity under this subchapter for each participant employed by the agency. It also provides for a yearly determination of the Fund's supplemental liability which is to be credited to the Fund by the Secretary of the Treasury out of money not otherwise appropriated.

Subchapter III describes the thrift savings plan, which is an optional plan permitting participants and former participants receiving disability benefits to contribute a percentage of their basic pay or disability benefits to a selected investment vehicle and have those contributions matched two for one by the government, up to a maximum of an eight percent government contribution.

Section 8421(a) allows participants to contribute up to 10 percent of their basic pay to the thrift plan. Former participants under age 62, who are receiving disability benefits, may contribute up to 10 percent of the disability benefits payable.

Section 8421(b) requires the employing agency to contribute an amount equal to twice the contribution of the participant at the same time as the participant's contribution is made. The total amount of the employing agency's contribution cannot exceed eight percent of the participant's annual rate of basic pay or the disabled participant's disability benefits for the fiscal year.

Section 8421(c) provides that appropriations or funds available to the agency for payments of basic pay are to serve as the source of the agency's contribution to the thrift fund.

Section 8421(d) provides that amounts contributed by the employee to the thrift fund are not included in gross income for income tax purposes.

Section 8422 provides a vesting schedule for the thrift plan. A participant immediately vests in his contributions and their earnings. Beginning at two years of service, the participant vests in 25 percent of the employer's contribution. This increases by 25 percent for each additional year of participation up to five years and beyond, when the entire share contributed by the employer, plus interest, is vested. A participant who dies while employed by the government immediately vests in 100 percent of the employer's contribution and the earnings on it.

Subsection 8423(a) permits a participant who separates from government employment when entitled to an immediate annuity to elect one of four methods of receiving money credited to his or her thrift account. These methods are:

(1) An immediate annuity

(2) A deferred annuity

(3) A lump sum withdrawal

(4) Transfer to an individual retirement account or another qualified plan

Subsection 8423(b) permits a participant who separates from government employment before becoming entitled to an immediate annuity to elect one of three methods of receiving money credited to his or her thrift account. These methods are:

(1) An annuity at age 62

(2) A lump sum withdrawal at age 62

(3) Transfer to an individual retirement account or another qualified retirement plan

Subsection 8423(c) permits a participant who elected to defer an annuity payment under subsection 8423(a) to modify the date specified in that election.

Subsection 8423(d) requires participants who transferred from the CSRS to wait five years from their date of participation before they can receive or transfer their accounts if they separate from service during the five year period.

Section 8424 describes how annuities available from the thrift plan will be computed and paid. The Thrift Investment Board will prescribe methods of payment which must include a monthly annuity payable only during the life of the annuitant and a monthly annuity payable for the joint lives of the one who survives the other. The amounts will be determined in accordance with generally accepted actuarial principles. Methods for providing annual increases in the annuity payable must also be prescribed. At the end of each fiscal year, a reconciliation of the investment experience for the annuitant's account and the actuarial assumptions used to compute the annuity will be made. Any excess return will be used to purchase an additional annuity payable from the fund.

Section 8425 provides rules for payments and elections by participants entitled to payments or transfers from the thrift plan.

Section 8426 establishes the Thrift Savings Fund and prescribes how monies in the Fund may be used. One such use is loans to participants in cases of hardship.

Section 8427 identifies categories of investments available to the Board for investment of sums in the Fund and provides that Fund participants may elect the type or types of investments into which money in their account will be invested. The section also specifies the minimum percentage of contributions made (1) by the participant and (2) on behalf of the participant which must be invested, over a given period of time, in United States government securities. The initial percentage is 100, reduced over a four year period to 25, for the participant's contributions. For the agency's contribution, the reduction goes to a final rate of 12.5% over a 12 year period. All sums initially credited for transfer participants and for participants hired during the temporary adjustment period will be invested in U.S. government securities. All amounts earned on sums invested in interest-bearing securities of the United States government and matured investments will be reinvested in interest-bearing securities of the United States government. The Board is restricted from investing in equity securities of private businesses to the extent that their ownership interest would permit them to direct the management of that private business without the concurrence of other owners of that business.

Section 8428 prescribes how the Board is to account for the funds of each participant in the System and requires that the participant be provided an annual statement of his or her account.

Subchapter IV describes the benefits available to survivors of deceased participants and former participants.

Section 8431 provides for payment of death benefits from the basic plan to a participant's survivor if the deceased had at least 18 months of service. The survivor gets the <u>higher</u> of:

(1) 50 percent of the accrued annuity (computed as if the worker had retired the day before death, with any applicable early retirement reductions, but without the reduction for survivor benefits) <u>plus</u> any social security payable, or

(2) 30 percent of the worker's high-five average salary <u>minus</u> any social security payable.

Section 8432 provides for payment of death benefits from the basic plan to a retiree's survivor unless the surviving spouse waived a survivor annuity. The benefits are as follows:

(1) Survivors age 60 or over with no children under age 16 get 50 percent of the unreduced annuity (except for early retirement reduction) / plus any social security payable.

(2) Survivors under age 60 with no children of the retiree under age 16 get the full annuity that was payable to the retiree (after reductions for early retirement and survivor benefits) until age 60, when they will get 50 percent of the accrued annuity after early retirement reductions/plus any social security.

(3) Survivors under age 60 with child(ren) of the retiree under age 16 get 50 percent of the unreduced annuity / plus any social security.

Section 8433 provides for survivor benefits from the thrift savings plan using one of three methods. These are:

(1) An annuity payable for life,

(2) Transfer of the money to the spouse's individual retirement account, or

(3) Lump sum payment

Money required to pay an annuity to a former spouse is deducted from a distribution to the surviving spouse or the estate and held in a fund until expended in payment of that annuity, unless terminated. Any remaining money in such fund goes to the surviving spouse or the estate.

Section 8434 provides for survivor benefits from the basic plan and the thrift plan for eligible former spouses. The benefits from the basic plan are the same as for a surviving spouse under sections 8431 or 8432.

-- In all three of the above sections, any prior elections or prior court orders or decrees concerning an annuity for a former spouse must be honored before payment to a surviving spouse or another former spouse can be made.

-- Benefits from the thrift fund are determined actuarially.

Section 8435 provides for a former participant to elect a survivor benefit from the basic plan and the thrift plan for an eligible former spouse.

Subsection (a) permits a participant who has a former spouse to elect an annuity reduction in order to provide a survivor annuity to such former spouse. The election must be made on the date payment of an annuity from the basic plan commences or, if later, within two years after the date on which the marriage of the former spouse to the participant is dissolved. A deposit, computed to reflect the amount by which the annuity would have been reduced if it had been continuously in effect since the date the annuity commenced, plus interest at six percent is required. If the deposit is not made, the retiree's annuity will be offset. An election of an annuity reduction to provide a survivor benefit to a former spouse shall not be effective if it

(1) conflicts with a court order or decree,

(2) exceeds the funds available to pay it, or

(3) is made without the spouse's written consent.

Subsection (b) provides that a retiree whose annuity is being reduced to provide a survivor benefit to a former spouse may elect to provide or increase a survivor annuity for any other former spouse. This election must occur within two years after the former spouse's date of death or remarriage before age 55.

Subsection (c) provides for a former participant to elect to provide or increase a survivor annuity to his spouse if the entitlement of an eligible former spouse is terminated or reduced due to remarriage or death.

Section 8436 provides for termination of a survivor annuity on death of the spouse, or former spouse, dissolution of the marriage, or remarriage of the former spouse before reaching age 55.

Subchapter V describes the disability benefits available to a participant who has at least 18 months of service.

Section 8441 provides definitions for the administration of this benefit.

Section 8442 provides that an eligible participant is entitled to receive benefits under this subchapter while under age 62. At age 62, the annuity is payable under the basic plan provisions of subchapter II based on at least 10 years actual service plus projected service through age 62. Average pay is equal to pay on the date of disability, increased each time after that date by the compounded overall average percentage increase in the rates of the General Schedule pursuant to section 5305.

Section 8443 provides the following methods for computing disability benefits:

(1) If eligible for Social Security or ineligible for Social Security only as a result of insufficient quarters of coverage, 60 percent of the high five salary minus 100 percent of the Social Security benefit.

(2) If ineligible for Social Security, 60 percent of the high five salary for the first year. After the first year, 20 percent of the high five or the accrued benefit based on projected service through age 62, whichever is lower.

Section 8444 requires a claim for disability benefits to be filed within one year after the date of onset of the disability. This time limit may be waived by OPM.

Section 8445 requires OPM to direct a medical examination of disability retirement applicants.

Section 8446 requires that an applicant who is determined able to perform the work required in any position offered by the agency must be considered for appointment to such position. The applicant is entitled to appeal such a determination.

Section 8447 provides for termination of disability benefits to an individual who recovers from the disability before reaching age 62. These benefits may be resumed if there is a recurrence of disability. In the case of an individual whose benefits were terminated due to restored earning capacity, benefits are resumed if he is not reemployed within one year, his disability continues, and his income for one year is less than the amount establishing his restored earning capacity.

Section 8448 establishes that an individual is not entitled to receive both disability benefits under this chapter and injury compensation benefits under subchapter I of chapter 81 of this title for the same period of time.

Section 8449 provides for disability benefits for a National Guard technician who is separated from employment as a technician due to a disability which disqualifies him from membership in the National Guard or from holding the military grade required for such employment and who is not placed in another position.

Section 8450 requires agencies to pay disability benefits from their salary appropriations.

Subchapter VI describes general provisions applicable to the administration of the basic plan.

Section 8451 provides that OPM shall pay all benefits payable under the basic plan from the Fund.

Section 8452 provides for an annual adjustment to the basic pension of the consumer price index minus 2 percentage points. The adjustment is made in January and is based on the change from September to September. A pro rata share of the increase is payable to retirees or survivor annuitants for whom this is the first increase.

Section 8453 provides that each annuity and disability benefit is stated as an annual amount, one-twelfth of which is the monthly rate payable.

Section 8454 provides that a participant's annuity under the basic pension begins to accrue on the day after the participant separates from government employment and terminates on the date of death or other terminating event provided by law. It further provides that a survivor annuity begins to accrue on the date of death of the participant or retiree on whom the annuity is based and terminates on the last day of the last month ending before the surviving spouse dies or remarries before age 55.

Section 8455 provides that an individual entitled to receive a basic pension may waive receipt of all or part of the benefits. An individual may also make allotments from the benefit payment.

Section 8456 provides that an application for benefits must be received before the former participant's 115th birthday; for survivor benefits, the application must be received within 30 years after the death or other event which establishes entitlement to the benefit.

Section 8457 requires compliance with the terms of a court order requiring payment of an annuity, in whole or in part, to another person.

Section 8458 provides for termination of an annuity when an annuitant is employed in an appointive or elective position in the Government. Upon termination of the employment, his annuity rights are redetermined. The amount of the annuity resulting from a redetermination is not less than the amount of the terminated annuity plus any increases under section 8452 of this title.

Subchapter VII outlines the transition provisions for individuals covered by the CSRS who choose to participate in the CSPS.

Section 8471 permits CSRS participants to elect to transfer to the CSPS or to begin participation in the CSPS and retain accrued credit for entitlement to benefits under the CSRS for service subject to that system.

Section 8472 provides that for transferees from the CSRS to the CSPS, the total amount deposited to the CSRS Fund on their behalf (employee and employer contributions) and interest on this amount as if it had been credited at the rate of seven percent at the end of each fiscal year for the amount deposited during that fiscal year will be transferred to the thrift savings fund in the form of U.S. Government securities. All service credited under subchapter III of chapter 83 is creditable service for the basic pension benefit.

Section 8473 provides that CSRS participants who elect to first participate in the CSPS are allowed credit for service under both systems for purposes of determining eligibility to retire in both systems. Pay for such individuals subsequent to beginning participation in the CSPS is taken into account in computing average pay under both systems.

Section 8474 provides that service by a participant during the temporary adjustment period will be recognized by transferring from the Fund to the Thrift Savings Fund an amount which equals his or her contributions plus twice that amount plus interest at 10%.

Section 8475 excludes former CSRS participants who join the CSPS from the offset provisions of the Social Security Act.

Subchapter VIII describes the Civil Service Thrift Investment Board, which administers the Thrift Savings Fund.

Section 8491 provides that the Board is established as an independent establishment in the executive branch of the Federal government. The Board will be composed of six members appointed by the President, confirmed by the Senate, and an Executive Director appointed by a majority of the members. Except for the members first appointed under this section, the members and the Executive Director are appointed for seven years.

Section 8492 lists the functions of the Board and the Executive Director.

Section 8493 states the powers of the Board.

Section 8494 states the powers of the Executive Director, including the authority to contract with private business concerns for the investment of sums in the Thrift Savings Fund and the management of such investments.

Section 8495 provides rules of administration for actions of the Board.

Section 8496 identifies fiduciaries and their responsibilities, defines "party in interest," lists prohibited practices by fiduciaries, and describes penalties for committing a prohibited practice.

Title II - Amendments to the Internal Revenue Code of 1954 and the Social Security Act.

Section 201(a) amends section 210(a)(5) of the Social Security Act by adding a new subparagraph concerning service performed by an individual who transfers to or commences participation in the CSPS.

Section 201(b) amends section 3121(b)(5) of the Internal Revenue Code of 1954 by adding a new subparagraph concerning service performed by an individual who transfers to or commences participation in the CSPS.

Title III - Miscellaneous Amendments to Chapter 83 of Title 5, United States Code

Section 301 amends section 5363(a) of title 5, United States Code, to provide pay retention for disabled employees placed as a result of subchapter V of chapter 84 in a lower grade position.

Section 302(a) amends section 8331 of title 5, U..S. code, to exclude District of Columbia government employees first employed after the effective date of this Act.

Section 302(b) amends section 8332 of title 5, United States Code, by adding a new subsection excluding participants in the CSPS from the creditable service provisions of the CSRS. Also excluded are those who transfer from the CSRS.

Section 302(c) and 302(d) amend sections 8334(a) and 8339 relating to deductions from an employee's pay for both CSRS and Social Security coverage. An employee who was covered by the CSRS on December 31, 1983 and who was subsequently covered by Social Security will continue in the CSRS at a reduced contribution. The contribution to CSRS will be equal to the excess of the employee's normal CSRS contribution over the full Social Security contribution. The CSRS benefit will be offset by 100% of the Social Security benefit attributable to federal service.

Section 303 excludes participants in the CSPS from participation in the Foreign Service Retirement and Disability System and the Central Intelligence Agency Retirement and Disability System. It includes officers and employees of the Postal Service for coverage under the provisions of chapters 83 and 84 of title 5.

Section 304 amends title 5, U.S. Code, to incorporate health benefit plan eligibility requirements for former spouses as a result of P.L. 98-615.

Title IV - Authorization and Effective Dates.

Section 401 provides for payment of the fiscal year 1986 expenses of the Civil Service Thrift Investment Board from appropriations.

Section 402 provides that this act takes effect 180 days after enactment, except for subchapter VIII of chapter 84 (relating to the Civil Service Thrift Investment Board), which takes effect on the date of enactment.